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April 9, 2004

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich  
From: David E. Janssen  
Chief Administrative Officer

Raymond G. Fortner, Jr.  
Chief Deputy County Counsel

**PROPOSED GAMING REVENUE ACT INITIATIVE – RESPONSE TO QUESTIONS**

At the Tuesday, April 6, 2004 Board meeting, Supervisor Antonovich raised questions regarding the proposed Gaming Revenue Act initiative. Proponents of the initiative are seeking to qualify the measure for the November 2004 ballot, and are in the process of gathering the necessary 598,105 valid signatures. This memorandum responds to those questions, and attached is a summary of the initiative.

**Question #1**

This proposal indicates that 50 percent of the revenues will go to foster children or abused children. However, it indicates that the county offices of education would be responsible for these funds. In light that there is a Department of Children and Family Services (DCFS) in our County, and I would assume in the other 57 counties have those responsibilities, how would those funds be distributed?

**Response**

If passed, the initiative is expected to raise approximately \$1 billion annually in new revenues. Up to \$10 million would go for administration, \$3 million for responsible gaming programs and up to \$84 million to non-gaming tribes, leaving approximately \$903 million to increase funding for firefighting, police and child protective services.

Of the remaining \$903 million, 50 percent (\$452 million) would be distributed to county offices of education statewide according to each county's proportionate share of the annual statewide total of child abuse referral reports for the prior calendar year with the goal of improving educational outcomes of abused and neglected children in foster care. It appears the funds are being allocated to county offices of education because one of the goals of the initiative is to improve educational outcomes for children in foster care, and not all counties have separate departments of children services.

Although the measure does not specify the administrative mechanism, each county office of education would be required to allocate these funds to county child protective services agencies to provide these services. We presume that the actual transfer of funds will be done through a contract or agreement. Since DCFS's approximate share of annual referrals statewide is 29 percent, the department would receive an estimated \$131 million annually for limited purposes related to improving the educational outcomes of abused and neglected children in foster care, and possibly foster children within the Probation Department. These funds could not be used to replace funds already being used for this purpose.

#### **Question #2**

The proposal provides 35 percent of the money going to Sheriff and Police Departments in each county, and 15 percent to the Fire Departments. Can we get some clarification as to how they intend to distribute those funds or how those funds would be distributed? Are the funds only for additional officers or fire personnel?

#### **Response**

Of the remaining \$903 million, 35 percent (\$316 million) would go to local governments on a per capita basis for additional sheriffs and police officers and 15 percent (\$135 million) would go to local governments on a per capita basis for additional firefighters. These funds must be used for additional law enforcement officers and firefighters and could not be used to replace funds already being used for this purpose. The measure is silent about the use of funds for equipment and other costs.

Of the estimated \$316 million statewide for additional sheriffs and police officers, approximately \$95 million would be allocated to law enforcement agencies within Los Angeles County. The Sheriff's Department could expect to receive \$10 million annually for additional deputies in the unincorporated area. The remaining \$85 million would be distributed among the County's 88 incorporated cities on a per capita basis. By contract, the Sheriff provides law enforcement services to 40 cities and may indirectly receive an additional \$15.9 million for deputies providing services to contract cities.

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Of the estimated \$135 million statewide for additional firefighters, approximately \$41 million would be allocated to fire agencies within Los Angeles County. The County Fire Department could expect to receive \$4.2 million annually for additional firefighters in the unincorporated area. The remaining \$36.8 million would be distributed among the County's 88 incorporated cities on a per capita basis. By contract, the Fire Department provides fire protection services to 57 cities and may indirectly receive an additional \$11.8 million for firefighters providing services to contract cities.

**Question #3**

With respect to the hiring of additional deputies and firefighters, what happens if you are at full capacity and there are surplus dollars? If you reach your full force needs, then do you bank surplus funds?

**Response**

The initiative is silent with respect to what happens to surplus funds if an agency reaches full hiring capacity for sheriffs or firefighters, but it is unlikely that the County would ever reach full capacity. The estimated \$10 million annually to the Sheriff will pay for approximately 100 new deputies in the unincorporated area. If the revenue earned from the initiative remained relatively stable, the \$10 million received annually would be used to support the ongoing costs (salaries and employee benefits) of the personnel initially hired with the new revenue. This would apply to firefighters as well.

Please let us know if you need additional information.

DEJ:RGF:GK  
MAL:JF:EW:ib

Attachment

c: Executive Officer, Board of Supervisors  
County Counsel

**THE GAMING REVENUE ACT OF 2004**

The initiative is aimed at increasing government revenue from gaming either by requiring existing California Indian casinos to contribute specified earnings or allowing the expansion of gambling in existing non-Indian casinos and horse racing tracks subject to specified taxes.

The initiative would guarantee continuation of the constitutional monopoly on slot machines for existing California Indian casinos in exchange for an agreement to contribute 25 percent of slot machine revenue to the Gaming Revenue Trust Fund (GRTF). If all California Indian casinos do not agree to the terms and conditions of the proposed Gaming Revenue Act, then eleven existing card casinos and five horse racing tracks would be authorized to operate 30,000 slot machines on their premises in exchange for a 33 percent tax on slot machine annual gaming revenue. According to the Legislative Analyst's Office, this measure would result in an increase in new revenues of over \$1 billion annually to be distributed to local governments to increase funding for firefighting, police, and child protective services.

**Agreement with Indian Casinos**

The initiative would require that all tribes with compacts agree to pay 25 percent of their "net win" to the GRTF and comply with certain State laws, including laws governing environmental protection, workplace, gaming regulation, and political campaign contributions. Net win is defined as the wagering revenue from all gaming machines operated by a tribe after prizes are paid out, but prior to the payment of operational expenses. A tribe would also report its net win to the State Division of Gambling Control and pay for an annual audit of its operations. All compact tribes would be required to agree to the terms of this measure within 90 days of its passage.

**Distribution of Gaming Revenues**

The initiative establishes a board, comprised of five members appointed by the Governor, to administer the GRTF. Of the estimated \$1 billion, up to 1 percent of the funds would be used for administration costs of the initiative (\$10 million annually), \$3 million annually would go to responsible gambling programs and approximately \$84 million annually would be given to the 70 non-gaming tribes to ensure that each tribe receives at least \$1.2 million annually from the GRTF and the existing Revenue Sharing Trust Fund which currently provides funds to non-gaming tribes. A non-gaming tribe is a federally recognized Indian tribe which operates fewer than 350 gaming devices.

The balance of the funds, estimated to be \$903 million, would be distributed to local governments as follows with the stipulation that these funds could not replace those already being used for the same purpose:

## **County Offices of Education**

- 50 percent to county offices of education to provide services for abused and foster care children (\$452 million annually statewide) with the goal of improving educational outcomes. The funds would be distributed according to each county's proportionate share of the annual statewide total of child abuse referral reports for the prior calendar year. Each county office of education would be required to allocate these funds to county child protective services agencies to provide these services.

Of the estimated \$452 million distributed to county offices of education statewide, the County Department of Children and Family Services (DCFS) would receive approximately \$131 million annually for the following purposes only: 1) out-stationing county child protective services social workers in schools; 2) providing appropriate caseloads to ensure that professional staff will have sufficient time to provide services necessary to improve the educational outcomes of abused and neglected children and children in foster care; 3) providing services to children in foster care to minimize mid-year transfers from school to school; and 4) hiring juvenile court workers whose responsibility it is to ensure the implementation of court orders issued by juvenile court judges affecting a foster child's educational performance.

DCFS would be subject to educational accountability standards, including performance measured by the percentage of children at grade level on standardized tests, and would be required to use the funds in a manner that maximizes the County's ability to obtain federal matching dollars for services to children in the child protective services system.

## **Local Law Enforcement**

- 35 percent to local governments on a per capita basis for additional sheriffs and police officers (\$316 million annually statewide). Of the estimated \$316 million, approximately \$95 million would be allocated to law enforcement agencies within Los Angeles County. The Sheriff's Department could expect to receive approximately \$10 million annually for additional deputies in the unincorporated area. The remaining \$85 million would be distributed among the County's 88 incorporated cities on a per capita basis. By contract, the Sheriff provides law enforcement services to 40 cities and may indirectly receive an additional \$15.9 million for deputies providing services to contract cities.

## **Local Fire Protection**

- 15 percent to local governments on a per capita basis for additional firefighters (\$135 million annually statewide). Of the estimated \$135 million, approximately \$41 million would be allocated to fire agencies within Los Angeles County. The County Fire Department could expect to receive approximately \$4.2 million annually for additional firefighters in the unincorporated area. The remaining \$36.8 million would be distributed among the County's 88 incorporated cities on a per capita basis. By contract, the Fire Department provides fire protection

services to 57 cities and may indirectly receive an additional \$11.8 million for firefighters providing services to contract cities.

### **No Tribal Agreement**

If all tribes do not agree to the measure's requirements, the measure allows up to 30,000 slot machines at certain existing card rooms and horse racing tracks in Los Angeles, San Diego, Contra Costa, Alameda, Orange, and San Mateo Counties. The measure would allow the sale or sharing of slot machine licenses in certain circumstances and makes permanent the limit on the expansion of both the number of card rooms and the size of existing card rooms, which is due to expire in January 2010 under current law.

Owners of authorized gambling establishments would pay 30 percent of the net win from their gaming machines to the GRTF. These payments would be in lieu of any taxes or fees enacted after September 1, 2003. An owner would report its net win to the State Division of Gambling Control and pay for an annual audit of its operations. In addition, affected horse racing tracks would be required to pay on an ongoing basis an additional 20 percent of the net win on their slot machines to be used to benefit the horse racing industry, including the increase of race purses.

The distribution of funds without a tribal agreement is the same as the distribution with a tribal agreement, with \$10 million allocated for administration costs, \$3 million for responsible gambling programs and approximately \$84 million for the 70 non-gaming tribes. The distribution of the balance of the funds (approximately \$903 million) would be the same as well, except that in addition to these funds being distributed to county offices of education (50%), local law enforcement (35%) and local fire protection (15%), authorized gambling establishments would also pay 2 percent of their net win to the city and 1 percent to the county in which the establishment is located.

Of the possible 30,000 additional slots allowed under this initiative without a tribal agreement, it is estimated that 16,000 would be in Los Angeles County. Based on the \$400 net win per slot per day estimate provided by a publicly traded gaming company, the 1 percent net win to the County would generate an estimated \$1.92 million per month (\$23 million per year) to the County in discretionary revenue. These discretionary funds, which would only be received without a tribal agreement, would be due to the County on a monthly basis.

### **Summary**

**If the initiative passes and all the existing tribes agree to contribute 25 percent of their net win to the GRTF, the County would receive an estimated total of \$145.2 million annually** for child protective services (\$131 million), sheriff deputies (\$10 million) and firefighters (\$4.2 million). In addition, the Sheriff and Fire Department may indirectly receive an additional \$15.9 million and \$11.8 million respectively for deputies and firefighters provided to contract cities.

If all the existing tribes do not agree to the measure's requirements, the measure would allow for an expansion of gambling that would still provide the County with the estimated total of \$145.2 million annually for child protective services, sheriff deputies and firefighters. In addition to this amount, the County would receive an estimated \$23 million annually in discretionary revenue because of the requirement for non-Indian establishments to contribute 1 percent of their net win to the county in which it is located. **Therefore, if the initiative passes and there is no agreement with the tribes, the total estimated annual revenue to the County would be \$168.2 million (\$145.2 million restricted and \$23 million discretionary).** In addition, the Sheriff and Fire Department may indirectly receive an additional \$15.9 million and \$11.8 million respectively for deputies and firefighters provided to contract cities.